The Borden Company

ANNUAL REPORT

1955

Illustrated above are two of the new Elsie-family figurines. Beginning in 1956, they (and Beulah and Beauregard as well) will appear in national magazine advertising and occasionally on our television programs. Elsie has been identified with Borden products for more than 19 years — in our advertising as a cartoon character and on display as a live cow.

The Borden Company

annual report for 1955

Board of Directors

Theodore G. Montague, *Chairman*

Harold W. Comfort, *President*
Charles A. Eckburg, *Vice President*
L. Manuel Hendler, *Hendler Creamery Co.*
Robcliff V. Jones, *New York*
Lester Le Feber, *Milwaukee*
Madison H. Lewis, *New York*

Marcus M. Munsill, *Spencer Trask & Co.*
Thomas I. Parkinson, *Counsellor-at-Law*
Henning W. Prentis, Jr., *Chairman of Board, Armstrong Cork Company*
Harry A. Ross, *Vice President*
Roy D. Wooster, *Vice President*

Officers

Theodore G. Montague, *Chairman of the Board*
Harold W. Comfort, *President*
Cecil I. Crouse, *Vice President*
Charles A. Eckburg, *Vice President*
Willis H. Gurley, *Vice President*
Charles F. Kieser, *Vice President*
Augustine R. Marusi, *Vice President*
Harry A. Ross, *Vice President*

Roy D. Wooster, *Vice President*
Everett L. Noetzel, *Treasurer*
Douglas T. Orton, *Secretary*
Stuart Peabody, *Assistant Vice President*
Theodore O. Hofman, *General Controller*
Harry L. Camp, *Assistant Treasurer*
Louis Csenge, *Assistant Secretary*
Kenneth J. Neagle, *Assistant Secretary*

Corporate Data

EXECUTIVE OFFICES
350 Madison Avenue, New York 17, N. Y.

REGISTERED OFFICE
117 Main Street, Flemington, N. J.

GENERAL COUNSEL
Milbank, Tweed, Hope & Hadley
15 Broad Street, New York 5, N. Y.

AUDITORS
Haskins & Sells
67 Broad Street, New York 4, N. Y.

REGISTRAR
Bankers Trust Company
16 Wall Street, New York 5, N. Y.

TRANSFER AND DIVIDEND DISBURSING AGENT
The Chase Manhattan Bank
11 Broad Street, New York 15, N. Y.

Report *to the stockholders and employees*

VINCENT JAMES

President Harold W. Comfort (left) and Chairman of the Board Theodore G. Montague

OUTLOOK General business conditions were excellent in 1955 and seem likely to continue so.

There is every reason to believe that the food industry will continue to share in the current prosperity. Relatively stable in all times, the industry does not benefit from boom periods as much as the extractive, durable goods and heavy goods industries. However, both its immediate and long range prospects are bright. Demand for foods will continue to increase as the population grows and the people aspire toward higher living standards.

Sales of our products should continue to rise to new records. Dairy products stand high in the list of "convenience" foods that are becoming increasingly popular with consumers. We have developed and are aggressively promoting new items designed to meet changes in dietary preferences, such as the trend toward lower calorie foods. Greater consumption of milk products results from the better understanding of sound principles of nutrition. And these products are good buys: Their prices have lagged behind the advance of wages and other prices, and are relatively cheaper than they were even ten years ago.

Demand for dairy products should again rise in 1956. But milk production, at its highest level in history in 1955, is expected to rise also—and more than consumer demand. Thus, surpluses of dairy products, and the problems created by them, will continue for some time, at least.

There will be other trying problems in the food industry generally. Competition in some product lines and in some areas is unusually keen — and there is no indication that it will lose its edge. Costs, particularly for labor, often rise faster than they can be offset by improved productivity or increased volume. Higher costs and intensified competition combine to narrow profit margins.

This general situation, plus several unusual factors, adversely affected our 1955 earnings.

These unusual conditions, commented upon later in the Report, had substantial effects. We believe that they are being satisfactorily resolved, and that 1956 sales — dollar as well as volume — should be the highest in our history. And, barring the unexpected in 1956, we anticipate that earnings will equal or surpass 1955.

SALES Our sales in 1955 amounted to $810,126,624, and were greater than ever before. They increased 4% over the $776,838,791 of 1954 and were 2% greater than in 1953, the previous record year. Prices of dairy products were generally stable; such changes as did occur were usually downward. The volume of products handled was larger than in any previous year.

PROFITS Our net income declined from the record high of 1954. It was $21,653,536, about 5% lower than the $22,724,336 of that year. Per share earnings were $4.61, as compared with $4.82. We earned about 2.7¢ per dollar of sales, as compared with 2.9¢ in 1954, which also is the average of the last 20 years.

There are several reasons for the decline in net income. Our margins on some principal products narrowed as prices declined without a corresponding reduction in costs or remained steady while costs went up. Larger promotion expenditures were needed to hold or improve our market position and unusual expense was incurred in introducing new products. Although these expenditures adversely affected 1955 income, we consider them a sound long-term investment.

Offsetting these factors to some extent were the improved contributions to earnings from other areas of our business, particularly our Chemical and Canadian operations. Our earnings were further helped by $600,000 in dividends from our unconsolidated foreign and domestic subsidiaries, which had paid no dividends in 1954. Our equity in the earnings of these sub-

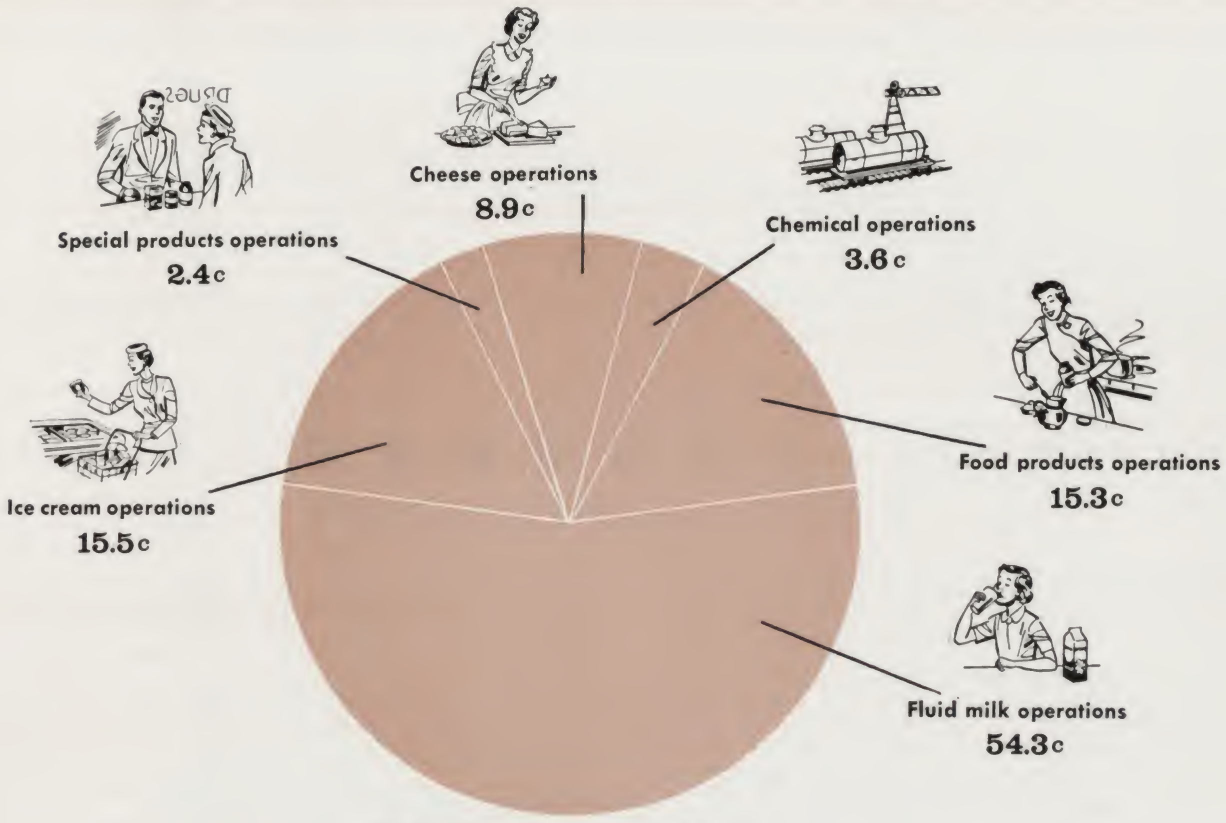
changes in management

On Dec. 27, the Board of Directors elected Theodore G. Montague as Chairman of the Board and Harold W. Comfort as President. As Chairman, Mr. Montague, who had been President since 1937, continues as chief policy making officer. Mr. Comfort, Executive Vice President since 1944, assumed responsibility for operations.

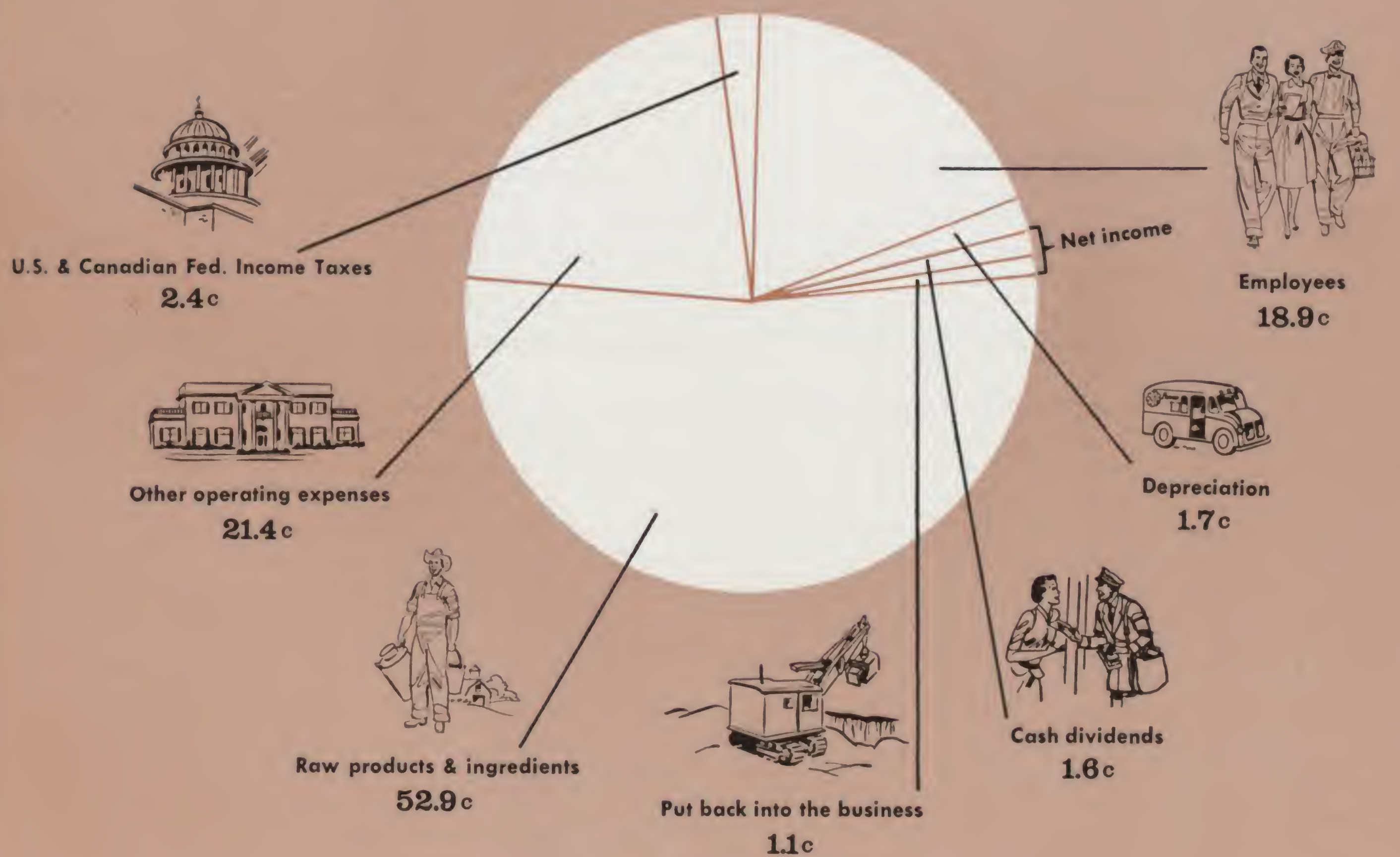
Augustine R. Marusi, President of the Chemical Division, was elected a Vice President of the Company on Sept. 27.

Roy D. Wooster, Vice President in charge of Fluid Milk and Ice Cream operations, was elected a member of the Board of Directors on Nov. 29. Vice President Charles F. Kieser, who heads the Special Products Division, resigned on that date as a member of the Board. He will reach retirement age on April 1, 1956.

The Borden Sales Dollar



Where it came from



Where it went

Typical of modern, sanitary equipment in ice cream plants is this machine for chocolate-coating Frosticks. Operation is automatic.

sidiaries amounted to about $4,100,000, an increase of 19% over the previous year.

DIVIDENDS Cash dividends to stockholders totalled $2.80 per share. Dividend payments amounted to $13,176,366, as compared with $12,439,939 in 1954, when only the year-end dividend applied to the shares distributed in October of that year as a stock dividend. Our 1955 year-end dividend was the 183rd consecutive payment since the Company was incorporated in 1899, and brought our unbroken dividend record to 57 years.

INVENTORIES Our inventories continued at levels which are low in relation to sales. They were valued at $59,003,108, an increase of 10% from 1954, when they were unusually low. Our principal inventory items are valued on the last-in, first-out (LIFO) basis. Thus, declines in the prices of these items during the year had no important effect on earnings. Incidentally, had we not adopted the LIFO method some years ago, our total inventory values would have been about $7,193,219 higher than those reported.

WORKING CAPITAL Current assets of $166,440,756 and current liabilities of $47,039,945 (a ratio of 3.54 to 1) left a balance of $119,400,811 as working capital, as compared with $119,436,523 in 1954.

CAPITAL EXPENDITURES Our capital expenditures budget for 1956 is $15,515,000. The authorizations for the modernization, replacement or expansion of plants and equipment are about $2,500,000 more than will be provided by depreciation accruals. Expenditures in excess of these accruals will be financed from retained earnings.

Supplementing these expenditures, we shall continue to lease certain kinds of trucks and refrigerating equipment. We plan to obtain about $6,300,000 worth of additional equipment through leases in 1956.

Frank White maintained the routeman's tradition of "carrying on" despite the elements, when hurricane-driven floods made milk delivery even more important.

Our program calls primarily for the purchase of machinery and equipment that will improve productivity and expand present facilities. However, the program also provides for several sizeable building projects. Our Chemical Division will build a new formaldehyde plant in Seattle, Wash., in order to meet the greater demands of West Coast industries. Work is already underway on expansion of drying facilities at our instant coffee plant in Newport, N. Y., and one of our fluid milk branches in Chicago, Ill., will be greatly enlarged.

RESEARCH Inasmuch as continuous product development is all-important to the healthy and continuous growth of the Company, we are placing greater emphasis on the search for new products and the improvement of our present line. Research expenditures will be substantially increased in 1956.

COMPANY OWNERSHIP On Dec. 31, there were 4,692,000 shares of the Company's capital stock outstanding, as compared with 4,710,000 shares a year earlier.

During the year the Company bought 78,657 shares of its stock — 56,157 shares were reissued for the acquisition of new businesses and 4,500 under the stock option plan prior to its amendment in April.

There were 48,876 shareholders of record at the close of the year, as compared with 49,430 in 1954. The average holding was 96 shares; in 1954 it was 95 shares. No individual owned as much as 1% of the stock outstanding.

LITIGATION There were the normal legal actions that arise in the usual course of our business but no new litigation of significance. The Federal Trade Commission again held hearings in its proceedings against eight ice cream manufacturers, including the Company, and further hearings are scheduled for 1956. The Government's suit in Chicago, charging the Company with discriminatory practices, is still to be decided. There has been no material change in the status of any of the several cases of a similar nature. In all of these matters the Company's interests are being vigorously defended.

ADVERTISING Our competitive position was strengthened by an intensified advertising program. More was spent for this purpose than in 1954, and expenditures will be substantially increased in 1956. In addition to maintaining a strong general program in behalf of the Borden brand we plan to concentrate on expanded campaigns to promote individual products.

On a trip to Tucson, Ariz., a Borden customer required a special milk on doctor's orders. Nearest source was our Chicago Milk Division. Arrangements were made for eight shipments by air express from Chicago, and the visitor continued her stay.

Jackie Cooper, Pat Breslin, and Cleo, a talking basset hound, appear on our evening TV show, "The People's Choice."

All the principal media were employed in our expanded advertising effort. There were notable innovations in network TV shows sponsored by the Company. THE PEOPLE'S CHOICE, a comedy show starring Jackie Cooper, Pat Breslin, and an appealing basset hound, Cleo, was started in the Fall. Although it faces strong competition for viewers' attention, the show's audience continues to grow. Our daytime TV program, DATE WITH LIFE, started during the year, is increasing in popularity also.

Research shows that more Borden selling messages are reaching more people than ever before. Surveys reveal that people like and remember our advertising and that it effectively moves them to buy Borden products. Moreover, the advertising is efficient; in terms of effectiveness per dollar spent, it rates generally above other similar advertising campaigns.

EMPLOYEES The adoption of a new national Hospital - Surgical - Comprehensive Medical Expense group insurance program provided employees with greater insurance protection than the former local plans. The Company contributes a part of the cost of the new program. Participation in it is voluntary, and 13,431 employees are enrolled. Membership will be expanded somewhat in 1956, but some units will continue with present local plans.

Our Group Life Insurance program covered 18,223 employees for a total of $91,875,725. Claims amounting to $632,375 were paid during the year. The Group Accident and Health program covered 19,429 employees and $395,661 in claims were paid.

Gold watches were presented to 61 members of the Borden Quarter Century Club on completion of 40 years of service with the Company. The Club, now in its 11th year, has over 5,000 employee members, plus about 1,500 retired employees, who have completed 25 years or more of service.

Swinging a milk carrier are Mr. and Mrs. Walter Schuett, Woodstock, Ill., chosen "America's Dairy Farm Family of the Year." They ship milk to our Chicago Milk Division.

Wheels of Swiss cheese (7½ tons) spell out Cheese Day, held once in five years at Monroe, Wis. The "Swiss Cheese Capital" is headquarters for our Swiss and Gruyere cheese operations.

SAFETY We continued our work to reduce the suffering and expense resulting from accidents. Our vehicle accident rate during the first nine months declined from the same period in 1954, but the employee injury rate increased. Vehicle accidents were 2.66 per 100,000 miles traveled, as compared with 2.74. The employee lost time accidents were 18.19 per million hours worked, as compared with 17.51 in the first nine months a year earlier.

IN CONCLUSION We should like to express our appreciation of the efforts of employees and executives in helping The Borden Company to serve the public better. We look forward to their continued cooperation. For ourselves, also, we should like to thank the stockholders for their continued confidence in the conduct of the Company's affairs.

More detailed information on activities of our principal operating divisions and our Canadian company is given in the following pages, together with other reports of interest to the stockholders and employees. The financial statements and the certificate of the independent auditors are on pages 20-24.

Theodore G. Montague

Chairman of the Board

F. M. Comfort

President

February 16, 1956

fluid milk operations

Consumption of fluid milk in the United States rose over 1954. The increase was due, in about equal measure, to the larger population and a higher average consumption of milk per person.

Generally, our own sales of fluid milk and related products were greater also, maintaining the trend of recent years. The national acceptance of our brand name, aggressive merchandising, and the variety and quality of the products themselves were important factors in our sales growth.

A further increase in fluid milk consumption in 1956 is predicted by Government and industry economists. This should again aid dairy farmers supplying fluid milk markets, although in many areas production has increased more rapidly than it can be absorbed by the increasing rate of fluid milk consumption. Farmers receive a higher price for milk that is bottled than for that used for manufacturing dairy products — a fact that helped sustain their incomes against the general farm price decline of 1955.

Our promotion of specialty items produced good sales results. In line with the current trend toward low calorie foods we emphasized the value of cottage cheese and other skim milk products such as buttermilk, chocolate drink and skim milk itself. So successful were these promotions that our 1956 plans call for three special product campaigns, backed by national advertising and promotion, starting with cottage cheese during the Lenten season.

We increased by about a third the number of marketing areas in which GAIL BORDEN SIGNATURE QUALITY MILK is available. Based on a broad nutritional concept, this fine-flavored, vitamin- and mineral-fortified product is enjoying a marked success. We plan to expand its distribution in 1956.

Special attention was again focused on ways of improving our operating efficiency in order to offset narrowing margins. Conversion to refrigerated trucks in our delivery fleets was advanced and will continue as rapidly as sound replacement policy permits. Extensive plant improvements included: A new delivery branch in Detroit, Mich., and expanded facilities at Burlington, Vt., Rock Island, Ill., and Youngstown, Ohio. New construction is underway at Chicago, Ill., and new plants at Abilene, Tex., and Jackson, Miss. will be built in 1956.

ice cream operations

Sales of our ice cream and related frozen products benefitted from two factors: Generally high consumer incomes, and the exceptionally warm weather that prevailed seasonally in most sections of the country.

Our business was also favorably affected by several merchandising innovations that should have long-time benefits. We redesigned the packages of the Borden-brand line of half-gallons, pints, and smaller sizes. By placing greater emphasis on the Elsie Daisy symbol, we profited from our long-time investment in the trademark, and at the same time increased its value for all products. Names of the flavors now appear in larger type on all sides of the packages, in order to simplify consumers' selections from self-service cabinets.

We began marketing LADY BORDEN, our premier ice cream, in distinctive half-gallon packages similar in design to the familiar pint containers. Half-gallon packages have become more popular with consumers in recent years owing to better home storage facilities. And those dealers carrying LADY BORDEN are now being identified by means of distinctive store signs in keeping with the quality of the product.

We extended distribution of a full line of Elsie-brand novelties — Frosticks, cups, sandwiches, etc. — to all serving areas. They will be strongly promoted in 1956. In several areas we introduced new specialty items with good results. Among these were an all-ice-cream molded frozen dessert and an all-ice-cream cake.

In the first campaign of its kind, all ice cream operations took part in a two-month Borden promotion of a selected flavor — Dutch Chocolate. A special package was designed, and the flavor was backed by intensive national magazine advertising, local newspaper advertising, and store displays. The two-month effort brought a substantial increase in sales.

We extended distribution to a number of areas where Borden ice cream products had not previously been available.

food products operations

Major changes have been taking place in the varieties of grocery products sold, and in their methods of distribution. Our Food Products Division has been in the midst of these changes.

Chain stores are now handling more of the grocery store business. Accounting for only about 5% of the total stores, they are doing about one-third of the dollar volume. Supermarkets are growing in popularity, too. They are responsible for more than half of consumers' grocery-store purchases.

Consumers' food purchases are changing, too. It is estimated that products developed since the end of World War II now account for one-fifth of dollar sales out of food stores. Two Borden-sponsored "convenience" products — nonfat dry milk and 100% pure instant coffee — are among these new items and are now an important part of the Division's sales.

Successful new products, however, attract competitors as well as customers. In 1945, when BORDEN'S was introduced, there were only a few instant coffees on the market, and on their manufacturers fell the burden of educating consumers to the convenience and economy of this new product. Now there are more than a hundred nationally and locally distributed brands of instant coffee sold at retail.

To increase our share of this expanding market, we have developed a new product—BORDEN'S RICH ROAST instant coffee, introduced in the Fall in some major Eastern markets. Perfecting it was costly *(The Story of Rich Roast* is told on the following page), as were merchandising and advertising efforts in launching it. The combination of these and other factors made our coffee business less profitable. But with many of the introductory costs behind us, increased sales of new RICH ROAST should improve the Division's showing in 1956 and subsequent years.

Sales of our new INSTANT STARLAC continued to increase. Wider acceptance of the product and popular demand for a larger package prompted us to extend distribution of the new 12-qt. size to a national basis. This, with the 3-qt. and 5-qt. sizes, gives us a complete line to meet the needs of any family.

Our evaporated milk business was about the same, in contrast to an industry-wide downturn in sales. To create wider markets for this product, we are promoting its use as a convenience food in cooking and baking, in addition to increased emphasis on use in infant feeding.

Despite the availability of low-cost dried whole milks abroad, our sales of these products in foreign markets increased.

Sample beans from a coffee shipment are blended and roasted by an expert before process begins.

the story of . . .

Almost twelve hundred years separate the discovery of coffee as a beverage, and the introduction of BORDEN'S RICH ROAST instant, "a new idea in coffee." For eleven hundred of those twelve hundred years, developments were few and infrequent: Someone thought of adding sugar to coffee in 1625; milk to coffee in 1660.

Then, in 1853, Gail Borden appeared on the scene. In the pages of *Scientific American* the founder of The Borden Company publicly announced his improved method for concentrating coffee, tea and fruit juices. In 1856 he received an English patent for his process.

Gail Borden's extract of coffee was marketed by the Company until the late 1920's, when consumer interest waned. Demand for an instant coffee was accelerated by World War II, not by consumers, but by the U. S. Government. Army officials wanted a concentrated, powdered coffee for use in Army rations, and asked Borden's to help. With our experience in the dehydration of foods, we developed such a product. The Government purchased our entire output during World War II, when coffee was rationed.

Restrictions on the sale of coffee to civilians were lifted in June, 1945. Shortly after, BORDEN'S 100% pure instant coffee went into national distribution, and was a quick success.

In bare outline, the processing of instant coffee appears incredibly simple — water is removed from freshly-brewed coffee. In practice, however, its manufacture is among the most complex processes in the food industry.

Browned, roasted beans, quenched with a small amount of water at flavor peak, flow from roaster to cooling bin.

An expert 'cups' jars of Rich Roast taken right from production line. Samples are checked at fifteen minute intervals throughout drying.

. . "rich roast"

More than a score of tests and checks are made between the arrival of green coffee at the wharf and the purchase of instant coffee by the consumer. Yet these tests and checks, made to assure the flavor and quality of the finished product, are constantly being improved. Technological changes in processing methods and equipment are developed rapidly in this new and fast-growing industry. And the consumer changes his preferences—not only for flavor, but also for physical characteristics of the product.

It was out of this background of advancement and change that BORDEN'S RICH ROAST emerged. The product is the culmination of years of technical research. Yet it is a distinctly new product, not an evolutionary one, because at a critical stage in its development — in mid-1954 — new criteria of progress were assigned to our laboratory and production personnel. The goal remained the same: Develop the best instant coffee. The new criteria: Consumer preferences.

Between assignment and result came thousands of hours of study and trial, in what is probably the most comprehensive and exhaustive program ever carried out in the food field. Before consumers could test a product there were many technical problems that only laboratory research and production tests could solve, such as green coffee selection, green coffee blending, dry coffee moisture content, density, texture, color, solubility, and taste, to name a few.

As for texture, color, solubility, and taste — the laboratories could offer selections of these characteristics, but the final choice of each rested with consumers. The new RICH ROAST was selected with the guidance of more than 17,000 taste and home use tests from among 300 laboratory, pilot, and production line samples. In the course of the product's development we conceived dozens of names for the new coffee, and interviewed 3,000 consumers to find out their preference. RICH ROAST was the overwhelming choice. We created new jar and label designs, displayed them among other brands of instant coffee, and asked consumers to pick the one they liked best. They chose the RICH ROAST label and jar.

Perfecting the product consumers wanted, however, was but a step toward a larger goal: To maintain the quality of RICH ROAST throughout the manufacturing process, regardless of volume. Sample beans, for example, must undergo several tests before we reach a decision to buy a green coffee shipment. Every bag of the shipment undergoes these same tests at our coffee plant.

The processing of instant coffee is itself a curious mixture of ancient art and modern science. No machine has yet surpassed in sensitivity the delicate palates of the coffee experts who select RICH ROAST's blend. Yet no human eye nor hand is so quick as the electronic and automatic controls that guard the uniformity of the product at every step along the production line. Converting green coffee beans into instant coffee is a manufacturing process, and therefore normally subject to production line techniques. Yet at one stage the process is entirely under the control of laboratory personnel. Checks and tests are constant. Throughout the drying process, for example, samples are taken every 15 minutes and laboratory tested. Coffee from jars on the production line is put through similar tests. Each check has only one purpose: To assure the uniformity of a Borden product.

Borden's new RICH ROAST reflects the Company's century-old efforts to give consumers the finest possible products by utilizing scientific and technical knowledge — in short, to insure that "If It's Borden's, It's *Got* To Be Good."

Jars of Rich Roast leave automatic filling and capping machine, move to final assembly for packing into cases.

chemical operations

The booming state of the construction industry and related fields was largely responsible for our Chemical Division's increased sales. Also contributing were changes in operating procedures, which improved efficiency, and a better-integrated line of products.

This Division supplies many of the basic materials used by the "shelter industry" — the related fields of construction, home-furnishings, and home-finishing goods. The "industry" had its best year in history, and our Chemical Division benefitted accordingly.

Sales of our resin adhesives to the plywood industry increased substantially, as did our sales of adhesives and glues to manufacturers of high-grade furniture. To meet increased demand for these adhesives, we are doubling our West Coast output of formaldehyde with construction of a new plant in the Seattle, Wash., area. We added facilities for making polymers — chemical compounds with wide applications in the paint field — to our Los Angeles, Calif., plant. We will increase production of resins at our Illiopolis, Ill., plant 25% by June of 1956.

We acquired the business of four chemical firms during the year: American Monomer Corporation, Monomer-Polymer, Inc., American Resinous Chemicals Corporation, and Reslac Chemicals, Inc. All these were outgrowths of a postwar venture to foster basic research in the chemical field. The basic line of products manufactured by these firms has wide application in the paint, paper, textile and plastics industries.

During the year we expanded our line of packaged products with the introduction of Borden's 38. This is a fertilizer of 38% nitrogen, derived from urea formaldehyde. Marketed originally in 50-lb. bags for nurserymen, it will also be sold in several smaller sizes for home use.

We have deferred a decision whether to build a synthetic resin manufacturing plant in the Philippines. Shortly after plans were announced, European manufacturers began exporting large quantities of resins there, depressing prices to levels that do not permit profitable operation because of limited volume. Meanwhile, we shall continue to supply synthetic resins to the Philippines from our Bainbridge, N. Y., plant.

cheese operations

The Government continued to be the controlling factor in the cheese business. It bought 15% of the year's production and, at year-end, held more than half of all the cheese in storage. Its price support program kept production higher than commercial demand. It disposed of some of its holdings in outlets normally supplied by the industry. As a result of the Government's role, the year saw abundant supplies of Cheddar cheese and a slight decline in trade sales. Business of our Cheese Division, nonetheless, improved, partly because of changed distribution practices and partly because prices were stable in contrast to 1954, when they declined as a result of lowered price supports.

Among consumers, there was a marked trend toward greater purchases of natural cheeses, smaller purchases of processed cheese. Probably the principal factor responsible for this swing in consumer preference is the increasing availability of pre-packaged natural cheeses. Development of new packaging methods and materials has enabled processors to extend distribution of these "convenience" items to smaller-volume stores. We are strongly promoting our line of pre-packaged Swiss, Muenster, and natural Cheddar slices, and Cheddar wedges, in an effort to attract new consumers, rather than those now using processed cheese.

Sales of BORDEN'S ENRICHED BISCUITS, another "convenience" food, continued to increase. A new biscuit plant was scheduled for completion early in 1956 at New Brunswick, N. J. It will serve Eastern markets at a considerable saving in transportation costs. They were previously supplied from our Atlanta, Ga., plant. In 1956 we expect to solve problems encountered in the manufacture of a new biscuit container.

The Division will continue to test, in a small geographical area, various ways of improving its distribution methods. Changes that prove practical may be extended to other and larger areas.

special products operations

The generally unfavorable agricultural situation that prevailed during the year affected the business of this Division, since its soy processing and feed supplements operations are tied to the farm market.

Because of troubled conditions in the soybean industry it was impossible to process soy oil and meal at a satisfactory return. The principal reason is the distorted relationship between the prices we must pay for beans and the prices we receive for their end products. Although the soybean crop was the largest in history, prices remained above Government support levels because of a strong export demand.

Soybean oil prices, on the other hand, were depressed by the large quantities of the product available, and the abundance of other vegetable oils and fats. Soybean meal for animal feeds competes with other sources of protein, such as cottonseed and linseed meal. Ample supplies of protein meals depressed market prices.

There are some indications that the soy situation may improve. Although the 1955 crop (to be processed in 1956) is estimated to be about 9% above the previous year's high, increased exports should siphon off a sizeable portion of the output. Demand from Western European countries should be heavy because of a decline in world stocks of fats and oils that developed late in the year. As supplies are reduced, prices for oil should strengthen. However, the economic problems of the industry are not likely to be solved in the near future.

Although our feed supplements business improved, it was nevertheless adversely affected by the decline in the farm economy. A large part of our business is with poultry growers, a group whose income dropped sharply early in the year. Disappointed by their returns, they did not grow normal replacements for their flocks, thus cutting down on feed purchases. This situation subsequently corrected itself and business was better toward the end of the year.

Our Prescription Products Department developed an improved Mull-Soy Liquid, a product for those who are allergic to milk. It will be aggressively promoted in 1956. Business of the Department improved over 1954.

Still serviceable, and a prized souvenir, is this tea pot fashioned by a British prisoner of war from a Klim can. Its owner recently sent "best wishes" to Borden's "for providing not only the milk but also the means by which the English got their very necessary tea."

Scouts at the Eighth World Jamboree, held at Niagara on the Lake, Ontario, line up for their containers of milk supplied by the Niagara Division of Borden's in Canada.

canadian operations

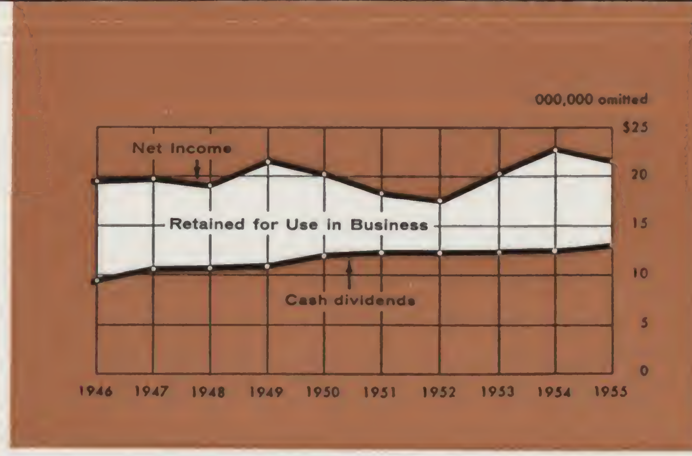
Sales of our Canadian operations reflected the buoyant and expanding economy of the Dominion. The slight downturn in the country's business at the close of 1954 was reversed in the Spring of 1955, and the year as a whole was Canada's most prosperous.

Our own operations — conducted by The Borden Company, Limited — both contributed to and shared in the general prosperity. Improvement was marked in all major areas of our business, and payments to employees and to suppliers of milk and other products were greater than ever before.

These higher outlays required renewed efforts to control costs by strengthening the efficiency of production and distribution. Among the improvements were the progressive introduction of refrigerated trucks in our milk operations, and the consolidation of two ice cream branches in a single new unit at Napanee, Ont. To finance these and other changes we increased our capital expenditures budget and contemplate even larger spending for this purpose in 1956.

New and improved products have helped strengthen our competitive position. Dutch Chocolate flavored drink and ice cream contributed to the improved business of the fluid milk and ice cream operations in Canada. INSTANT STARLAC nonfat dry milk, introduced during the year, met with good results. BORDEN'S RICH ROAST instant coffee, also new in 1955, should improve our share of the market. Several cheese lines were also added.

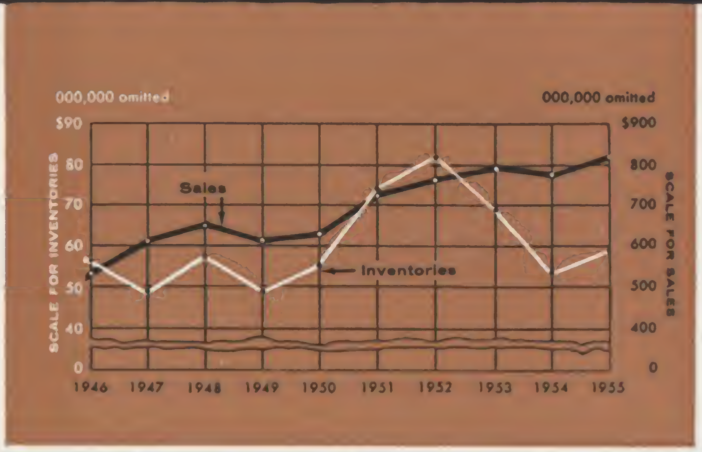
Canadian gross national product — the total value of all goods and services produced — exceeded 26 billion dollars, and expectations are that it will be at that level in 1956. This healthy economy and a rising population, combined with aggressive merchandising and promotion of our products, should further benefit sales and profits.

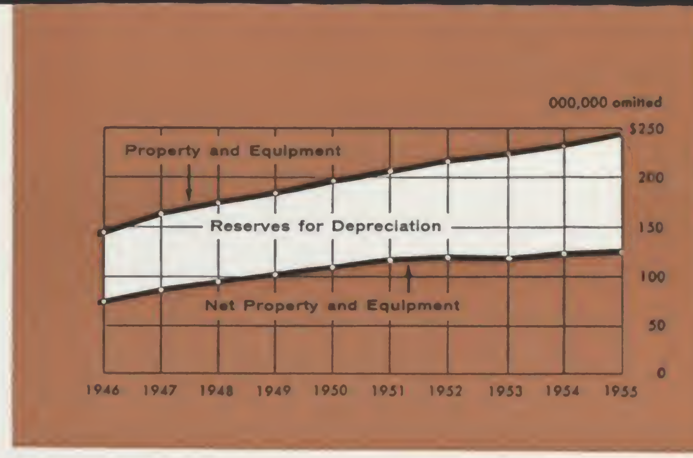


Ten Year Summary...

		1955	1954	1953	1952	1951
Operating	Sales	$810,126,624	$776,838,791	$792,381,721	$768,019,612	$722,770,380
	Payrolls	$153,233,084	$145,063,306	$140,063,502	$134,784,228	$122,158,335
	Taxes (U.S. & Canadian Fed. Income)	$ 19,279,450	$ 23,428,263	$ 22,102,585	$ 15,742,410	$ 19,128,541
	Depreciation	$ 14,282,324	$ 13,761,179	$ 13,294,359	$ 12,301,608	$ 11,285,846
	Net Income	$ 21,653,536	$ 22,724,336	$ 20,264,156	$ 17,667,137	$ 18,080,371
	Per Sales Dollar	2.67¢	2.93¢	2.56¢	2.30¢	2.50¢
	Per Share	$4.61	$4.82	$4.71	$4.11	$4.20
	Cash Dividends	$ 13,176,366	$ 12,439,939	$ 12,034,800	$ 12,027,145	$ 12,036,366
	Cash Dividends per Share	$2.80	$2.80	$2.80	$2.80	$2.80
Financial	Working Capital	$119,400,811	$119,436,523	$119,578,762	$115,921,287	$114,987,211
	Current Ratio*	3.54:1	3.84:1	3.76:1	3.89:1	3.86:1
	Inventories	$ 59,003,108	$ 53,501,698	$ 67,971,612	$ 81,878,083	$ 73,742,837
	Property and Equipment	$247,281,722	$233,937,180	$224,276,381	$219,487,155	$208,894,814
	Reserves for Depreciation	$119,172,355	$111,285,644	$105,685,809	$101,724,036	$ 93,006,980
	Net Property and Equipment	$128,109,367	$122,651,536	$118,590,572	$117,763,119	$115,887,834
	Borrowed Capital	$ 53,750,000	$ 55,000,000	$ 57,200,000	$ 58,750,000	$ 60,000,000
	Stockholders' Equity	$201,204,674	$194,021,424	$185,533,017	$177,012,551	$172,017,360
Other	Shares Outstanding	4,692,000	4,710,000	4,300,000	4,295,000	4,300,000
	Number of Stockholders	48,876	49,430	50,605	51,324	51,479
	Number of Employees	33,194	32,498	32,465	32,564	32,475

**Ratio of Current Assets to Current Liabilities*





The Borden Company

1950	1949	1948	1947	1946
$631,114,120	$613,763,267	$649,592,375	$602,959,406	$542,998,805
$113,004,008	$109,780,054	$106,131,433	$101,175,326	$ 89,000,822
$ 15,731,165	$ 12,870,762	$ 10,638,021	$ 11,879,797	$ 13,842,314
$ 10,366,594	$ 9,661,874	$ 8,512,816	$ 7,703,212	$ 6,791,453
$ 20,147,073	$ 21,890,479	$ 19,179,427	$ 19,793,276	$ 19,581,006
3.19¢	3.57¢	2.95¢	3.28¢	3.61¢
$4.69	$5.10	$4.46	$4.61	$4.64
$ 12,019,910	$ 11,593,320	$ 10,944,885	$ 10,807,100	$ 9,508,900
$2.80	$2.70	$2.55	$2.55	$2.25
$101,355,105	$106,653,894	$105,918,817	$ 89,445,530	$ 84,558,487
3.73:1	4.01:1	4.28:1	3.74:1	3.43:1
$ 54,906,173	$ 48,988,814	$ 57,636,783	$ 48,922,300	$ 57,641,793
$196,471,088	$181,709,298	$174,020,197	$162,649,180	$144,943,870
$ 86,900,462	$ 81,504,208	$ 77,436,818	$ 73,367,153	$ 69,621,314
$109,570,626	$100,205,090	$ 96,583,379	$ 89,282,027	$ 75,322,556
$ 45,800,000	$ 47,200,000	$ 48,600,000	$ 35,000,000	$ 25,000,000
$166,269,312	$159,759,940	$150,349,937	$142,126,550	$132,000,087
4,300,000	4,291,000	4,300,000	4,292,000	4,217,000
51,121	52,386	51,788	50,445	49,121
31,545	31,166	31,483	32,399	31,475

Consolidated Balance Sheet

The Borden Company

ASSETS

	December 31 1955	December 31 1954
CURRENT ASSETS:		
Cash	$ 42,260,472	$ 45,496,996
United States Government Securities	18,162,962	18,919,545
Receivables (Less Reserves—1955, $2,909,733; 1954, $3,322,982)	47,014,214	43,556,366
Inventories (Note 2):		
Finished Goods	33,801,635	30,735,634
Materials and Supplies	25,201,473	22,766,064
Total Inventories	$ 59,003,108	$ 53,501,698
Total Current Assets	$166,440,756	$161,474,605
INVESTMENTS AND OTHER ASSETS:		
Unconsolidated Subsidiaries (Foreign and Domestic)	$ 4,718,147	$ 4,939,892
Securities on Deposit (Pursuant to Workmen's Compensation Laws, etc.)	1,518,543	1,764,730
Mortgages, Receivables, etc. (Note 5)	6,233,437	6,270,700
Total	$ 12,470,127	$ 12,975,322
Less Reserves	422,994	481,158
Net Investments and Other Assets	$ 12,047,133	$ 12,494,164
PROPERTY AND EQUIPMENT	$247,281,722	$233,937,180
Less Reserves for Depreciation	119,172,355	111,285,644
Net Property and Equipment	$128,109,367	$122,651,536
DEFERRED CHARGES	$ 3,065,713	$ 4,445,795
TRADE-MARKS, PATENTS AND GOOD-WILL	$ 1	$ 1
TOTAL	$309,662,970	$301,066,101

See page 23 for notes to financial statements.

and Consolidated Subsidiaries

LIABILITIES

	December 31 1955	December 31 1954
CURRENT LIABILITIES:		
Accounts Payable	$ 31,462,678	$ 27,868,707
Accrued Accounts:		
Taxes (after deducting Treasury Tax Notes equal to U. S. Federal Income Taxes—1955, $19,800,000; 1954, $24,250,000)	3,162,252	3,066,670
Other	12,415,015	11,102,705
Total Current Liabilities	$ 47,039,945	$ 42,038,082
THIRTY YEAR 2⅞% DEBENTURES DUE 1981 (Note 3)	$ 53,750,000	$ 55,000,000
RESERVES (Insurance, etc.)	$ 7,668,351	$ 10,006,595
CAPITAL STOCK AND SURPLUS:		
Capital Stock—par value $15 per share Authorized 8,000,000 shares; Issued 4,848,758 shares		
Less Treasury Stock — Outstanding		
1955—156,758 shares — 4,692,000 shares	$ 70,380,000	
1954—138,758 shares — 4,710,000 shares		$ 70,650,000
Capital Surplus (Note 4)	30,646,160	31,670,080
Earned Surplus (Earnings retained for use in the business)	100,178,514	91,701,344
Total Capital Stock and Surplus	$201,204,674	$194,021,424
TOTAL	$309,662,970	$301,066,101

Consolidated Income and Earned Surplus

The Borden Company

	Year Ended December 31 1955	1954
NET SALES	$810,126,624	$776,838,791
OTHER INCOME (Includes Interest, Dividends and Royalties—1955, $2,125,619; 1954, $1,434,921)	2,817,338	2,026,996
TOTAL	$812,943,962	$778,865,787
LESS:		
Cost of Goods Sold	$704,593,656	$671,486,255
Selling, General and Administrative Expenses and Other Charges	65,780,822	59,572,760
Interest Expense	1,636,498	1,654,173
Provision for U. S. and Canadian Federal Income Taxes	19,279,450	23,428,263
TOTAL	$791,290,426	$756,141,451
NET INCOME FOR THE YEAR	$ 21,653,536	$ 22,724,336
EARNED SURPLUS AT BEGINNING OF YEAR	91,701,344	108,557,347
TOTAL	$113,354,880	$131,281,683
DEDUCT DIVIDENDS PAID:		
Cash ($2.80 a share in 1955 and 1954)	$ 13,176,366	$ 12,439,939
Stock		27,140,400
TOTAL	$ 13,176,366	$ 39,580,339
EARNED SURPLUS AT END OF YEAR (*Earnings retained for use in the business*)	$100,178,514	$ 91,701,344

See page 23 for notes to financial statements.

and Consolidated Subsidiaries

Notes to Financial Statements

(1) BASIS OF CONSOLIDATION, ETC.: The financial statements include all Canadian operating subsidiaries and all domestic subsidiaries except one whose operations are not integrated with those of the Company. In consolidating the accounts of Canadian operating subsidiaries, assets, liabilities and income were converted at parity of exchange.

The Company's equity (approximately $4,100,000 for 1955 and $3,450,000 for 1954) in the net income of the unconsolidated subsidiaries is included in Other Income only to the extent of dividends received (in 1955 — $600,000; in 1954 — None). The Company's equity in the net tangible assets of these unconsolidated subsidiaries at December 31, 1955, as shown by their books, is approximately $13,800,000 more than its investments in these subsidiaries.

The consideration paid for businesses acquired during 1953 and 1954 in excess of the values assigned to net tangible assets, $1,706,483 which was included in Deferred Charges at December 31, 1954, is included in the caption Selling, General and Administrative Expenses and Other Charges in the year 1955. The values assigned to intangibles acquired subsequent to January 1, 1955, are to be amortized against income beginning with the year 1956.

Provision for U. S. and Canadian Federal Income Taxes for the year 1955 has been reduced by the transfer of $2,350,089 from reserves provided in prior years for income taxes, no longer required.

(2) INVENTORIES: In valuing inventories and in determining the cost of goods sold, average costs (reduced to market if lower) were used, except as to certain products for which the last-in, first-out (Lifo) method was used. For the years from 1939 to 1949, inclusive, the Lifo method was so used for accounting but not for income tax purposes. As of January 1, 1950, the Lifo method was adopted for income tax purposes for all of the products previously on the book Lifo basis plus certain other products. This necessitated restatement of inventory values as of December 31, 1949 on the Income Tax Lifo basis, resulting in Income Tax Lifo values which were $5,469,633 more than the book Lifo values previously adopted. In the Consolidated Balance Sheet at December 31, 1955 and 1954, this latter amount has been deducted from the inventories, including those on the Income Tax Lifo basis, and can be utilized, for accounting but not for income tax purposes, if market prices of products on the Income Tax Lifo basis decline below Income Tax Lifo values.

(3) DEBENTURES: The Company shall pay into a sinking fund a sum sufficient to redeem on March 1, 1957, and on each March 1 thereafter, to and including March 1, 1980, $1,250,000 principal amount of Debentures with the option to increase any payment by an amount not exceeding $1,250,000. The sinking fund obligation due on March 1, 1956 was satisfied prior to December 31, 1955 by delivery to and cancellation by the trustee of Debentures of a principal amount of $1,250,000. The Company also has purchased and holds in the treasury Debentures of a principal amount of $1,250,000 which are not shown as outstanding. Discount and expense of this issue are being amortized over the period during which the Debentures are outstanding.

(4) CAPITAL SURPLUS: There was charged to Capital Surplus during 1955, $3,628,025 representing the excess of cost over par value of capital stock of the Company held in the treasury December 31, 1954 (and in the accompanying balance sheet as of that date the capital accounts have been restated to conform therewith) and $3,904,600 excess of cost over par value of capital stock of the Company acquired for the treasury during 1955. There was credited to Capital Surplus during 1955, $2,860,392 representing the excess of consideration received over par value of stock reissued from the treasury during 1955. In addition $20,288 was credited to Capital Surplus during the year representing proceeds from disposal of properties previously written off against this account.

(5) STOCK OPTIONS: Of the 7,000 shares of Capital Stock of the Company held in the treasury at December 31, 1954 and reserved under the Officers and Employees Stock Option Plan, options were exercised to the extent of 4,500 shares at $36.25. There was no charge against income in connection with the exercise of these options. The remaining options for 2,500 shares expired March 30, 1955. At December 31, 1955 balances receivable for stock purchased under the Plan aggregate $154,938, which amount is included with Mortgages, Receivables, etc.

No options have been granted under the Employees Stock Option Plan approved by stockholders on April 20, 1955.

(6) DEPRECIATION AND RENTALS: Provision for depreciation charged to operations was $14,282,324 for 1955 and $13,761,179 for 1954. Rentals amounted to approximately $5,500,000 for 1955, of which $3,300,000 was related to long-term leases.

(7) CONTINGENCIES: The Company was guarantor of bank loans to foreign affiliated companies in amounts aggregating approximately $1,800,000 at December 31, 1955. See comment on page 6 of this Report for reference to litigation.

Accountants' Certificate

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK 4

February 16, 1956.

THE BORDEN COMPANY:

We have examined the consolidated balance sheet of THE BORDEN COMPANY and Consolidated Subsidiaries as of December 31, 1955 and the related statement of consolidated income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and earned surplus present fairly the financial position of the companies at December 31, 1955 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied (except for the change, which we approve, in accounting for intangible assets, referred to in Note 1 to Financial Statements) on a basis consistent with that of the preceding year.

Haskins & Sells


The Borden Company, 350 Madison Avenue, New York 17, N. Y.

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